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THE CANADIAN LIFE INSURANCE

OFFICERS ASSOCIATION

S U B M I S S I O N

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O N T A R I O C O M M I T T E E

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T A X A T I O N

TORONTO, ONTARIO

OCTOBER 9th, 1963

The Canadian Life Insurance Officers Association

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Summary of Submission to

THE ONTARIO COMMITTEE ON TAXATION

by

THE CANADIAN LIFE INSURANCE OFFICERS ASSOCIATION

- - -

Wednesday, February 5, 1964, The Council Chamber
263 McCaul Street, Toronto

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1. Introduction

Mr. B. T. Holmes, President of the Association, describing the Association and introducing its delegation.

2. Subjects

Mindful of the Committee's request that formal submissions be not read at hearings, it is proposed now to summarise the proposals that the Association has already presented to you.

On behalf of its members, the Association directs your attention to certain features of two areas of taxation in the Province and offers suggestions for the consideration of the Committee with regard to them.

The matters raised concern -

1) the imposition of municipal business taxes upon life insurance companies under the present classification system; and

2) the succession duty treatment of life insurance contracts.

3. The Assessment Act and Business Taxes

With respect to municipal business taxation, the Association outlined in its brief the undesirable features of the present graded business taxes. Life insurance companies, with others, are in the category of 75% of assessed value of land occupied or used. The categories range,

apart from an isolated case of 150%, from the 75% figure down through 60%, 50%, etc., to 10%.

The classifications are arbitrary and discriminatory. Apparently they had their origin in an Act of sixty years ago when I believe the percentages were set on the basis that they corresponded with percentages that were formerly used in the imposition of personal property taxes.

The intervening years have seen change follow change and reformation follow reformation in the business world but this system has remained, perhaps only because of its antiquity.

The Association has pleaded for change for a great many years, lastly, in 1962, before the Ontario Select Committee on the Municipal Act and Related Acts. That Committee in an interim report did recommend a reduction in the number of categories.

If the system does rest at all on "ability to pay", that is not a proper foundation for it because no industry or type of business can be classified in this way. We submit there is no more justification for this system for business taxes than there would be in the real property tax field. Municipal services have to be paid for but they do not vary very considerably with type of occupancy of premises. To the extent that they do vary, the municipal services required by life insurance offices are the minimum services required for office space.

The Association would not object to a level imposition of business tax based on value of premises, if a separate business tax is necessary. It is realized that a change might involve a gradual adjustment.

Failing such a change, it is submitted that life insurance companies do not belong in the 75% category. They are vehicles for

thrift and self-reliance. Their business is largely mutual in character. Their payments relieve welfare expenditures and at the same time they require only minimum services. A comparatively higher business tax on this enterprise is a special levy on the self-reliant citizen.

Therefore, the Association suggests:

1) the removal of the classifications;

2) if business tax is to be retained, that it be imposed as a flat rate tax;

3) if the classifications remain, that life insurance companies be placed in the lowest category for office space.

4. The Succession Duty Act and Life Insurance Proceeds

The Association has always taken the keenest interest in all matters appertaining to taxes on death because, with 3 out of every 4 families in Ontario holding life insurance contracts with members of the Association, we have a real obligation to maintain that interest.

Our brief outlines two main proposals in addition to a general plea that this very intricate law should be completely revised and simplified. It almost goes without saying, as well, that uniformity in this area would be a very desirable goal. To the extent that uniformity is feasible, it might be a very fruitful ground for mutual discussions among the authorities, federal and provincial.

The Association has also indicated that it wishes to direct your attention to two other specific questions.

I would, therefore, like to review briefly these four particular points and to suggest that The Succession Duty Act and Regulations be amended to take account of them.

(a) Firstly, life insurance is made subject to duty in a manner quite different from that affecting other forms of property. A life

thrift and self-reliance. Their business is largely mutual in character.

insurance contract is a chose in action, a piece of personal property, capable of being dealt with by realisation, by sale, by gift or as security - just like any other property. Subject to such normal exceptions as those for gifts inter vivos within a certain time before death or for donationes mortis causa, life insurance proceeds should be subject to the general principle that only property owned by the deceased should be subject to duty on his death.

The owner has all the control of a life insurance contract. The life insured is merely the object of the insurance. The value is the property of the owner to deal with, to keep or to part with as he pleases. The life insured has no power to dispose of the contract or its proceeds.

There used to be some credence given to an argument that something new and different arose out of a life insurance contract on maturity and that somehow even in a third party case this was a benefit conferred on the claimant by the deceased on the occasion of the deceased's death; but this argument resulted from a complete misunderstanding of the nature of a life insurance contract.

In fact, there is nothing testamentary about a life insurance contract especially one owned by a third party. The death of the life insured is the occasion for the payment under the contract but if he is not the owner, he is not the source of the funds: they flow from the company out of funds to which other policyholders and the owner were jointly entitled.

It is submitted that there is no principle upon which property not subject to the control and ownership of a deceased person should be

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subject to duty on his death. It is wrong to impute a property interest when nothing is owned and when nothing can be disposed of on death.

To continue to apply the premium payment test is an unjustifiable discrimination against this form of property and the Association suggests that an ownership test should be adopted instead. I might point out that after extensive debate on both sides of the border, the premium payment test was discarded in favour of an ownership test in the United States and here in Canada under the federal Act.

(b) Our second proposal deals with the right to pay claimants without delay on death. The Act provides for prompt payment up to certain limits without formality other than notice of payment, otherwise payment must await the Treasurer's consent. The Association suggests that notice of payment, probably limited to claims exceeding $1,000, would be sufficient to protect the government against loss of revenue.

The companies have streamlined their own claims procedures in order that life insurance proceeds may perform their proper function. The primary purpose is to get these liquid funds to work immediately to meet the sudden and continuing financial requirements, often of widows and dependent children.

Payments to named beneficiaries do not have to await probate or letters of administration; but they are included in succession duty returns and therefore are subject to the consent system. After the prompt payment allowed by the Act a consent has to be obtained before further payment can be made. The marshalling of the assets and the rendering of the estate returns takes a lot of time and there are inevitable delays which are both misunderstood and resented by the public. When a consent is issued it may be for the whole or part of the balance of the insurance claim. In any case, it means that the papers have to be handled once again and a second cheque drawn and negotiated. In fact, the system contributes to delay and added work and expense, both within and outside the Department.

The companies are most anxious to reduce these delays and costs. In these days, any cost ought to be scrutinized: any unnecessary expense ought to be removed.

In many cases, the estates are not dutiable anyway. It is felt that the improbability that a claimant would marshal all his assets and flee and escape with them from the Province is such that the retention of the consent system is not justified. For these reasons, the Association urges the elimination of the consent requirement.

(c) The Association's third point arises because the Act in many cases brings into tax instalment benefits or annuities at their full value according to a full and normal expectancy of life.

Duty falls on an assumed number of payments and the particular circumstances are ignored. There is no relief for impaired health. A widow may be dying of cancer. In another case, her pension may end on remarriage.

The use of mortality tables to value such benefits should only be a starting point or a factor. The tables give the life expectancy of all widows of a certain age. Duty levied on a valuation arrived at by reference to the tables will be just right for the widow who actually lives the expected years, but too small for the widow who lives longer, and too great for the widow who lives less than the average.

A life insurance company can employ the averaging principle and sell life annuities to a group of people of the same age for the same premium. A government can tax on the same basis and collect a total tax of the desired amount. But what of the individual widow? Her own risk cannot be spread. The duty may exceed the pension payable

because she dies too soon.

This is a matter that has often been aired and a number of solutions have been suggested.

The Association favours a simple solution whereby the rate of duty is determined as at present but collected out of each payment and only for as long as the payments are received.

Two objections are normally offered to this method. One that the long-liver may pay more than at present; but surely, that is not unreasonable. The other objection is to keeping tax files open too long. To meet this, we suggest that the present ten year instalment basis for payment of duty be applied but on a ten-year temporary life annuity basis and as a limit on the time for settlement of the duty.

By this method, the annual instalment of duty would be the annual amount that the total duty on the pension would produce if spread out as a ten-year temporary life annuity on the recipient's life, i.e. the present value of the annual instalments of tax payable on a ten-year temporary life annuity basis would equal the total amount of duty due on the pension.

In this way, the averaging principle can be applied for the short-lived annuitant whose instalments would cease on death within the ten years. It may also be appropriate for cases where instalment benefits cease on remarriage or on any other contingency.

In brief, this proposal means that the benefits would be valued in the usual way but the duty could be settled by annual instalments payable until the expiration of ten years after death or until the termination of the benefits, whichever first occurs.

(d) Our last point is one that is also related to the valuation of instalment benefits.

Regulation 24 of the Succession Duty Act Regulations prescribes the general standards of mortality and interest, namely the 1937 Standard Annuitants Table and 4% interest, as are in use under the federal Estate Tax Act and under the B.C. Succession Duty Act. But this uniformity extends only to other than insurance company payments. If instalment payments arise under an insurance or annuity contract they must, in Ontario, be valued according to the standard of mortality and at the rate of interest on which the contract is based.

This results in confusion on the estate returns. Taxpayers do not understand this simple difference. It is beyond their comprehension when different values can be assigned to identical annuities arising out of policies issued at varying times by a single company or by different companies on the bases of varying standards of mortality and interest.

There are other technical difficulties with this method of valuation. It is not entirely clear what standards are intended. Should the valuation be on the basis used to calculate the premium, or the company's reserve liabilities or should it be that underlying the settlement options in the contract? And if the contract contains no settlement options, factors in use at maturity may be used as against quite different and old factors in the case of an identical contract that contained the options.

It would appear fair and reasonable that the averaging principle should again apply and that the "fair market value" should be based on

currently acceptable standards of mortality and interest rather than on guarantees that may have been fixed as long as forty or fifty years before.

Therefore, the Association suggests that the prescribed table and interest rate should be applied uniformly to all types of payments.

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This concludes the summary of the points we commend to your consideration. If you wish us to elaborate upon them or if you have any questions that you would like to ask, my colleagues here assembled and I will be very pleased to offer further comment.

The Canadian Life Insurance
Officers Association

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Representatives of The Canadian
Life Insurance Officers Association

appearing before

The Ontario Committee on Taxation

Wednesday, February 5, 1964, 10:15 a.m.
at Toronto

- - -

B. T. Holmes

Vice-President and Chief Actuary, Confederation Life Association, Toronto; and

President, The Canadian Life Insurance Officers Association

J. S. Kilgour, Q.C.

Vice-President, General Counsel and Secretary, North American Life Assurance Company, Toronto

E. C. Robinson

Associate Secretary, The Manufacturers Life Insurance Company, Toronto

T. R. Walsh, Q.C.

Associate Secretary and General Counsel, The Canada Life Assurance Company, Toronto

J. A. Tuck, Q.C.

Managing Director and General Counsel, The Canadian Life Insurance Officers Association

W. T. Morgan

Assistant General Counsel, The Canadian Life Insurance Officers Association

January 31, 1964

See file

To: The Commissioners of the Ontario Committee on Taxation

From: The Canadian Life Insurance Officers Association

1. Introduction

The Association, which represents virtually every life insurance company, Canadian, British, United States and European, doing business in Ontario wishes to direct your attention to certain features of two areas of taxation in the Province and to offer suggestions for the consideration of your Committee with regard to them.

The relevant statutes of the Province are The Assessment Act (R.S.O. 1960, chapter 23) and The Succession Duty Act (R.S.O. 1960, chapter 386) and the matters raised thereunder are ones that have been closely studied by the life insurance companies and by the Association for a great number of years.

This submission concerns itself with municipal business assessment for life insurance company offices under the first Act and with the manner in which life insurance policies are dealt with under the second Act. These subjects are presented in detail below.

2. The Assessment Act - Business Assessment

(a) The life insurance companies doing business in Ontario maintain about 450 branch offices and 45 head offices in the Province.

(b) They do not protest against a business tax based on the value of premises occupied if a business tax is deemed to be necessary. However, they feel strongly that it should be based on a single percentage of the realty assessment for all businesses and not on the present classification system.

(c) It is said that the present classification bears some relation to "ability-to-pay". This is demonstrably wrong and in fact no classification by type of business could ever achieve this end.

(d) The present system of classification is arbitrary and discriminatory. The inclusion of life insurance companies in the 75% category is, for the reasons indicated in paragraphs (g), (h) and (i) below, an excellent example of the unfairness of the present classification.

(e) There is no more justification for a graduated classification in the business tax field than in the real property tax field. Both taxes are levied to pay for municipal services and most of these services do not vary appreciably with the type of occupant of the premises taxed.

(f) The Association recognizes that a change-over to a flat tax presents problems and recommends that a period of years, say five, be used to make gradual adjustments. The change-over should not, it is submitted, involve any increase in the over-all ratio of business taxes to real estate taxes.

(g) Failing a change-over to a flat tax, it is submitted that life insurance companies should be placed in a much lower category than at present. Life insurance companies perform a useful service in providing a vehicle for thrifty people to put aside part of their income for their dependants or for their own old age. These people pay as citizens all the taxes citizens generally are required to pay and any special tax imposed on the company is automatically a tax on thrift. Business tax on life insurance companies at a higher rate than is applicable to business generally is, it is submitted, a special levy on thrift.

(h) Life insurance is largely mutual in character. A reduction in taxes would therefore be reflected in a lower cost of insurance for participating policyholders.

(i) The municipal services required by life insurance offices are the minimum services required by all types of businesses. At the very least, the companies should be in the lowest category applicable to office space.

3. The Succession Duty Act

(a) The Association has constantly kept this Act under review in the light of its impact on policyholders and their beneficiaries. Three out of every four families in Ontario have life insurance protection with members of the Association and are vitally concerned with the effect of the Act upon this property. Many amendments have added to the intricacy of this involved and difficult statute. Probably the law should be completely revised and simplified. It is suggested that there is a need for consistency with other similar statutes; for instance, under the federal Estate Tax Act and the British Columbia Succession Duty Act absolute gifts are exempt if made at least 3 years before death, whereas in Ontario the comparable period is 5 years.

(b) The Association respectfully submits in particular that the Act should be amended so that:

(i) Duty would not be levied upon any life insurance proceeds which become payable on the life insured's death nor would such proceeds be included in the aggregate value of an estate, unless the policy is owned by the deceased at the time of his death.

(ii) A system of company reporting of life insurance payments would be substituted for the present "consent" requirements.

(c) Under the first proposal, duty would fall on the total proceeds of a policy owned by the deceased whether the proceeds were payable to the estate of the deceased or to a beneficiary. Duty would not, however, fall on the proceeds of a policy in which the deceased had no ownership interest at the time of his death.

This would put life insurance in the same position as all other forms of property and would follow the general principle that property should be subject to duty only if it was owned by the deceased at the time of his death, subject to such exceptions as those for property disposed of as a donatio mortis causa and

gifts inter vivos made within a specified period prior to death.

(d) Ownership of insurance by one person on another's life arises in many ways but the interest of an owner of an insurance policy is not a vague or illusory thing. It is in the owner, not in the life who is insured, that all the normal incidents of ownership are vested. The owner can, without the concurrence of the life insured, surrender the policy, pledge it for a loan, sell it outright or give it away.

To hold that the proceeds of a policy of life insurance owned absolutely by a third party are dutiable in whole or in part upon the death of the life insured is to say that life insurance is, by its very nature, testamentary in character, i.e., that because money is payable upon the deceased's death, the deceased himself has conferred a benefit on the recipient of the money. This is not so; the life insured has no power to dispose of the proceeds because he owns no part of the policy. His life is simply the subject-matter of the insurance in the same way as a building may be the subject-matter of fire insurance.

The value of an owner's interest in a life insurance policy increases at the death of the life insured, but the life insured makes no contribution to this increase. No property owned by him is used to create the insurance proceeds. A third party, the life insurance company, through funds built up by other policyholders and by the owner of the policy, is the sole source of this increase. There is no principle, in our view, upon which a tax designed to apply to property left by a deceased on death should be applied to property in which he had no interest.

(e) An ownership test would remove the present discrimination against life insurance which would then be treated in the same way as other forms of property.

At present, for example, when a wife insures the life of her husband or becomes the owner of a policy on his life the proceeds are dutiable in proportion to the premiums which were paid by the deceased; but the husband has no more control over an insurance policy owned by his wife than he has over any other

form of property of which she is the beneficial owner. The incidents of ownership described above are all vested in her and her husband owns nothing and can dispose of nothing on his death. He has no property interest on which duty can be levied. To impute an interest to him is an unjustifiable discrimination against one form of property.

(f) The Association's second proposal is that the Act be amended to eliminate the requirement that life insurance companies obtain the consent of the Treasurer before making payment of life insurance moneys in excess of $5,000 to widows and $2,500 to others and that in lieu of this requirement an obligation be placed upon them to notify the Succession Duty Department when making payment.

(g) Life insurance is the major source of liquid funds in most estates and the companies have over the years endeavoured to maintain a reputation for making prompt payment of claims. They have streamlined their own claims procedures in order to keep delays to a minimum because the primary purpose of many life insurance policies is to place immediate funds in the hands of the beneficiaries to meet both sudden and continuing financial requirements.

Life insurance in favour of a named beneficiary is payable directly to that beneficiary who is not required to await the issue of letters of probate or administration before obtaining payment. However, in many cases this important feature of life insurance is impaired by the present "consent" system which has the effect of delaying payment until the administration of the estates can proceed and the appropriate consents have been obtained.

The Ontario Succession Duty Department is, in the view of the companies, as prompt and efficient as the present law will permit but normally consents are not issued until the succession duty returns have been filed and therefore the very existence of a consent requirement inevitably causes delays. The number of people involved in completing, filing and processing the necessary

papers in even a modest estate reduces the possibility of prompt action. The beneficiaries' first reaction to the delay is to blame the company and the Government. When it is realized that the company is ready to pay as soon as it is permitted to do so, the blame falls on the Government for insisting on requirements which interfere with the carrying out of the contract between the company and the deceased. This is particularly so in the very large number of cases in which the beneficiaries know that the estates are not dutiable and because they cannot understand how any useful purpose is served by the Government's requirement that payment must await its consents. In addition, the "consent" system is costly to administer.

The companies are naturally anxious to be well thought of by the public. They want it to be felt that they are discharging their responsibilities under their contracts as quickly and efficiently as possible. The elimination of the consent requirement will remove a source of annoyance and irritation to the public and permit the companies to fulfil their undertakings without delay.

(h) The possibility of loss of revenue if this proposal is accepted is, we feel, exceedingly small and would be far outweighed by the goodwill established by the removal of the cause of irritation. There are very many claims each year in connection with estates for which Succession Duty returns are prepared and filed but in which no duties are exigible. Nevertheless, these returns must be reviewed and consents issued. Accordingly, it is felt that substantial and worthwhile savings in clerical work for the Department as well as for the companies would result from the discontinuance of the consent system.

It would appear that the only chance of the Ontario Government losing revenue would be if a beneficiary were able to realize all his assets in the Province and to depart with the funds to another country before the Government had collected any duty payable. The probability that any person would be in a position and have the inclination to do this is so small that it should not be allowed

to prevent beneficiaries enjoying the prompt receipt of life insurance proceeds.

(i) The consent requirement was not always contained in the Ontario Act and it is understood that it was originally introduced because the Government felt that some control by the Succession Duty Department was necessary for adequate administration of the Act. It is suggested that immediate reporting of claims by companies would always have been sufficient for this purpose.

The Province of Nova Scotia for years operated its Succession Duty Act without a consent requirement on the basis that companies reported promptly all payments in excess of $1,000; the authorities there advised the Association that their system always worked satisfactorily.

Similarly, in a number of the United States of America there are no consent requirements for the payment of life insurance proceeds and there is no reason to believe that this has proved unsatisfactory.

(j) For the reasons above stated, the Association urges the elimination of the consent requirement from the Ontario Act. The necessity of prompt information reaching the Department respecting property subject to duty is appreciated and the companies are fully prepared to accept an obligation to report payments immediately. It is, however, also suggested that small payments, say not exceeding $1,000, might be exempted from the reporting system with considerable savings in clerical work both for the Department and for the companies.

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This is a matter that has often been aired and a number of solutions have been suggested.

The Association favours a simple solution whereby the rate of duty is determined as at present but collected out of each payment and only for as long as the payments are received.

Two objections are normally offered to this method. One that the long-liver may pay more than at present; but surely, that is not unreasonable. The other objection is to keeping tax files open too long. To meet this, we suggest that the present ten year instalment basis for payment of duty be applied but on a ten-year temporary life annuity basis and as a limit on the time for settlement of the duty.

By this method, the annual instalment of duty would be the annual amount that the total duty on the pension would produce if spread out as a ten-year temporary life annuity on the recipient's life, i.e. the present value of the annual instalments of tax payable on a ten-year temporary life annuity basis would equal the total amount of duty due on the pension.

In this way, the averaging principle can be applied for the short-lived annuitant whose instalments would cease on death within the ten years. It may also be appropriate for cases where instalment benefits cease on remarriage or on any other contingency.

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This results in confusion on the estate returns. Taxpayers do not understand this simple difference. It is beyond their comprehension when different values can be assigned to identical annuities arising out of policies issued at varying times by a single company or by different companies on the basis of varying standards of mortality and interest.

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by

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The classifications are arbitrary and discriminatory. Apparently they had their origin in an Act of sixty years ago when I believe the percentages were set on the basis that they corresponded with percentages that were formerly used in the imposition of personal property taxes.

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The Association has pleaded for change for a great many years, lastly, in 1962, before the Ontario Select Committee on the Municipal Act and Related Acts. That Committee in an interim report did recommend a reduction in the number of categories.

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The Association favours a simple solution whereby the rate of duty is determined as at present but collected out of each payment and only for as long as the payments are received.

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Summary of Submission to

THE ONTARIO COMMITTEE ON TAXATION

by

THE CANADIAN LIFE INSURANCE OFFICERS ASSOCIATION

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Wednesday, February 5, 1964, The Council Chamber
263 McCaul Street, Toronto

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Mr. B. T. Holmes, President of the Association, describing the Association and introducing its delegation.

2 Subjects

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On behalf of its members, the Association directs your attention to certain features of two areas of taxation in the Province and offers suggestions for the consideration of the Committee with regard to them.

The matters raised concern -

1) the imposition of municipal business taxes upon life insurance companies under the present classification system; and

2) the succession duty treatment of life insurance contracts.

3. The Assessment Act and Business Taxes

With respect to municipal business taxation, the Association outlined in its brief the undesirable features of the present graded business taxes. Life insurance companies, with others, are in the category of 75% of assessed value of land occupied or used. The categories range,

apart from an isolated case of 150%, from the 75% figure down through 60%, 50%, etc., to 10%.

The classifications are arbitrary and discriminatory. Apparently they had their origin in an Act of sixty years ago when I believe the percentages were set on the basis that they corresponded with percentages that were formerly used in the imposition of personal property taxes.

The intervening years have seen change follow change and reformation follow reformation in the business world but this system has remained, perhaps only because of its antiquity.

The Association has pleaded for change for a great many years, lastly, in 1962, before the Ontario Select Committee on the Municipal Act and Related Acts. That Committee in an interim report did recommend a reduction in the number of categories.

If the system does rest at all on "ability to pay", that is not a proper foundation for it because no industry or type of business can be classified in this way. We submit there is no more justification for this system for business taxes than there would be in the real property tax field. Municipal services have to be paid for but they do not vary very considerably with type of occupancy of premises. To the extent that they do vary, the municipal services required by life insurance offices are the minimum services required for office space.

The Association would not object to a level imposition of business tax based on value of premises, if a separate business tax is necessary. It is realised that a change might involve a gradual adjustment.

Failing such a change, it is submitted that life insurance companies do not belong in the 75% category. They are vehicles for

thrift and self-reliance. Their business is largely mutual in character. Their payments relieve welfare expenditures and at the same time they require only minimum services. A comparatively higher business tax on this enterprise is a special levy on the self-reliant citizen.

Therefore, the Association suggests:

1) the removal of the classifications;

2) if business tax is to be retained, that it be imposed as a flat rate tax;

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The Association has also indicated that it wishes to direct your attention to two other specific questions.

I would, therefore, like to review briefly these four particular points and to suggest that The Succession Duty Act and Regulations be amended to take account of them.

(a) Firstly, life insurance is made subject to duty in a manner quite different from that affecting other forms of property. A life

insurance contract is a chose in action, a piece of personal property, capable of being dealt with by realisation, by sale, by gift or as security just like any other property. Subject to such normal exceptions as those for gifts inter vivos within a certain time before death or for donationes mortis causa, life insurance proceeds should be subject to the general principle that only property owned by the deceased should be subject to duty on his death.

The owner has all the control of a life insurance contract. The life insured is merely the object of the insurance. The value is the property of the owner to deal with, to keep or to part with as he pleases. The life insured has no power to dispose of the contract or its proceeds.

There used to be some credence given to an argument that something new and different arose out of a life insurance contract on maturity and that somehow even in a third party case this was a benefit conferred on the claimant by the deceased on the occasion of the deceased's death; but this argument resulted from a complete misunderstanding of the nature of a life insurance contract.

In fact, there is nothing testamentary about a life insurance contract especially one owned by a third party. The death of the life insured is the occasion for the payment under the contract but if he is not the owner, he is not the source of the funds: they flow from the company out of funds to which other policyholders and the owner were jointly entitled.

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To continue to apply the premium payment test is an unjustifiable discrimination against this form of property and the Association suggests that an ownership test should be adopted instead. I might point out that after extensive debate on both sides of the border, the premium payment test was discarded in favour of an ownership test in the United States and here in Canada under the federal Act.

(b) Our second proposal deals with the right to pay claimants without delay on death. The Act provides for prompt payment up to certain limits without formality other than notice of payment, otherwise payment must await the Treasurer's consent. The Association suggests that notice of payment, probably limited to claims exceeding $1,000, would be sufficient to protect the government against loss of revenue.

The companies have streamlined their own claims procedures in order that life insurance proceeds may perform their proper function. The primary purpose is to get them liquid funds to work immediately to meet the sudden and continuing financial requirements, often of widows and dependent children.

Payments to named beneficiaries do not have to await probate or letters of administration; but they are included in succession duty returns and therefore are subject to the consent system. After the prompt payment allowed by the Act a consent has to be obtained before further payment can be made. The marshalling of the assets and the rendering of the estate returns takes a lot of time and there are inevitable delays which are both misunderstood and resented by the public. When a consent is issued it may be for the whole or part of the balance of the insurance claim. In any case, it means that the papers have to be handled once again and a second cheque drawn and negotiated. In fact, the system contributes to delay and added work and expense, both within and outside the Department.

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(c) The Association's third point arises because the Act in many cases brings into tax instalment benefits or annuities at their full value according to a full and normal expectancy of life.

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